

Cashflow management is crucial

Cash is the lifeblood of any business. A business will survive as long as its heart is able to pump enough cash through the system.

Cashflow management is a vital part of running a commercial operation, yet business owners often don't give it the attention it deserves. Remember, profit and cash are not the same thing. A business could be highly profitable, yet have cashflow problems.

For example, take a business that offers credit to its customers. The profit and loss account for the month may show a healthy profit based on invoiced sales, but an updated cashflow statement could tell a different story. The business may be running out of cash because debtors are slow to pay and the business has insufficient capital to fund its activities.

Therefore, the business may be under severe pressure because it doesn't have enough cash and may be unable to pay the wages.

A business improves cashflow through:

- Collecting cash from sales of products or services
- Securing a bank overdraft or a term loan
- Reducing its working capital requirement (such as agreeing better credit terms, collecting debts quicker, decreasing stock)
- Sourcing additional capital (such as equity)

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